

## Message Text

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ACTION EUR-12

INFO OCT-01 ARA-06 NEA-10 ISO-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02

STR-04 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 NSC-05

SS-15 L-03 PA-01 PRS-01 USIA-06 /097 W

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R 011220Z JUL 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 9170

INFO ALL EC CAPITALS 840

AMEMBASSY CARACAS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L EC BRUSSELS 05919

E.O. 11652: ADS -- "DECLASSIFIED ON JULY 1, 1978"

TAGS: EFIN, EEC

SUBJECT: EC COMMON BORROWING FACILITIES --RESULTS OF COMMISSION  
VISIT TO KUWAIT

RSFS: A. EC BRUSSELS 5470

B. EC BRUSSELS 5218

1. SUMMARY: EC COMMISSION OFFICIALS REPORT THAT WHILE KUWAIT DID NOT HAVE FUNDS AVAILABLE THIS YEART, IT WAS PREPARED TO CONSIDER A LOAN TO THE EC COMMON BORROWING FACILITY NEXT YEAR. THE COMMISSION NOW PLANS A BORROWING EARLY NEXT YEAR. KUWAITI OFFICIALS ARE INTERESTED IN PURSUING THE EURO-ARAB DIALOGUE AND IN ESTABLISHING CLOSER TIES WITH THE EC. END SUMMARY.

2. EC COMMISSION VICE PRESIDENT HAFERKAMP MET WITH THE KUWAITI FINANCE MINISTER ON JUNE 22 IN KUWAIT. THE MINISTER INDICATED THE GOK WAS NOT PREPARED TO MAKE A LOAN TO THE EC COMMON BORROWING FACILITY THIS YEAR  
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BUT IT WOULD CONSIDER DOING SO NEXT YEAR. NO SPECIFIC

AMOUNT OR TERMS WERE DISCUSSED. IN SUBSEQUENT CONVERSATIONS WITH THE KUWAITIS, HOWEVER, COMMISSION OFFICIALS SAID THAT THE EC WOULD LIKE TO BORROW BETWEEN \$300-400 MILLION, SHOULD THE TERMS BE FAVORABLE. A LOAN SHOULD HAVE A 5-6 YEAR MATURITY AND THE INTEREST RATE SHOULD BE BETTER THAN THE PRIME RATE OFFERED TO ANY OF THE EC MEMBER STATES, I.E., NO MORE THAN ABOUT 8.25 PERCENT. THE KUWAITIS MADE NO COMMITMENTS, BUT COMMISSION OFFICIALS EXPECT THE GOK TO OFFER ABOUT \$250 MILLION. COMMISSION OFFICIALS SAY THE GOK ATTACHED NO POLITICAL STRINGS TO A POSSIBLE LOAN.

3. THE KUWAITIS TOLD THE COMMISSION DELEGATION THAT THEY WANTED TO BROADEN THEIR CONTACTS WITH FOREIGN COUNTRIES AND WERE CONSEQUENTLY INTERESTED IN DEVELOPING CLOSER RELATIONS WITH THE COMMUNITY. THEY PARTICULARLY WANTED TO EXPAND TRADE RELATIONS WITH THE EC. THE KUWAITIS REACTED DIFFERENTLY TO THE EURO-ARAB DIALOGUE FROM SAUDI OFFICIALS (SEE REF B). THE GOK WAS ENCOURAGED BY THE CAIRO MEETING AND HOPED TO SEE THIS DIALOGUE DEVELOP SOME CONCRETE PROPOSALS FOR JOINT COOPERATION. GOK OFFICIALS WERE ESPECIALLY INTERESTED IN TRIANGULAR INVESTMENT PROJECTS IN WHICH THE EC WOULD COMBINE ITS TECHNOLOGICAL AND MANAGEMENT KNOW-HOW WITH ARAB FINANCIAL RESOURCES TO HELP THE LDCS. THE KUWAITIS WERE PLEASED THAT THE ARAB PARTICIPANTS AT THE CAIRO MEETING WERE ABLE TO COOPERATE AMONG THEMSELVES. FOR EXAMPLE, EXPERTS FROM FIVE "DENATIONALIZED" ARAB DELEGATIONS, INCLUDING THE PLO, WERE ABLE TO DRAFT THE FINAL COMMUNIQUE WITH A MINIMUM OF IDEOLOGICAL OVERTONES. THE DRAFT WAS READILY ACCEPTED BY THE OTHER ARAB PARTICIPANTS. THE KUWAITIS BELIEVE THIS TYPE OF COOPERATION AUGURS WELL FOR FUTURE ARAB UNITY IN UPCOMING NEGOTIATIONS.

4. COMMENT: COMMISSION OFFICIALS BELIEVE PROSPECTS ARE GOOD FOR A BORROWING EARLY NEXT YEAR. ITALY AND IRELAND HAVE NOW SUBMITTED LETTERS TO THE COMMISSION TO CONFIRM THEIR REQUESTS FOR A LOAN FROM THE FACILITY. KUWAIT'S DESIRE TO WAIT UNTIL NEXT YEAR, HOWEVER, HAS

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CAUSED EARLIER PLANS TO MAKE A BORROWING IN THE FALL TO SLIP SOMEWHAT.

5. THE COMMISSION NOW PLANS TO ASK THE FINANCE COUNCIL ON JULY 10 FOR GUIDANCE ON THE DRAWING UP OF ECONOMIC POLICY CONDITIONS FOR COUNTRIES RECEIVING LOANS. THE CONDITIONS ESTABLISHED FOR ITALY UNDER THE EC MEDIUM-TERM LOAN WILL SERVE AS A MODEL. THE COMMISSION

EXPECTS TO BEGIN ACTUAL NEGOTIATIONS WITH SAUDI ARABIA, KUWAIT AND PERHAPS VENEZUELA IN SEPTEMBER.

6. COMMISISION OFFICIALS SPECULATE THAT THE UK MAY WANT TO RECEIVE PART OF THE BORROWING BEFORE ARRANGEMENTS ARE COMPLETED. THE LOAN TERMS ARE LIKELY TO BE ATTRACTIVE BECAUSE THE UK PROBABLY CANNOT BORROW ON ITS OWN FOR LESS THAN 9.5 PERCENT INTEREST. THEY BELIEVE THAT WHILE IT IS RELUCTANT TO ACCEPT ECONOMIC CONDITIONS, THE UK WILL LIKELY ADOPT ITS OWN STABILIZAION PROGRAM WITHIN SEVERAL MONTHS. IN SUCH A CASE, THE EC'S CONDITIONS WILL NOT SEEM SO ONEROUS.  
END COMMENT. GREENWALD

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